

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7095

BILL NUMBER: SB 177

DATE PREPARED: Dec 26, 2000

BILL AMENDED:

SUBJECT: Historic Preservation Income Tax Credits.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues		(550,000)	(550,000)
State Expenditures			
Net Increase (Decrease)		(550,000)	(550,000)

Summary of Legislation: This bill provides that the amount of Historic Preservation Income Tax Credits may not exceed \$1,000,000 in a state fiscal year that begins July 1, 2001, or thereafter.

Effective Date: July 1, 2001.

Explanation of State Expenditures: Historic preservation tax credits are currently capped at \$450,000. The proposal would increase the cap to \$1,000,000. The increase in the cap should not increase significantly administrative expenses for the Department of Natural Resources (DNR) that certifies the projects because the DNR has certified projects beyond the current cap.

Explanation of State Revenues: The Historic Rehabilitation Tax Credit Program is administered by the Division of Historic Preservation and Archaeology of the DNR and the Department of State Revenue. Credits are awarded to individuals or businesses spending more than \$10,000 to preserve or rehabilitate historic property. Each credit granted is equal to 20% of the qualified expenditures as approved by the Division of Historic Preservation and may be taken against the recipient's state income tax liability (including the gross income tax, adjusted gross income, or supplemental net income tax).

The total amount of approved credits has exceeded the cap for the past four years. Under this bill, it is

expected that all \$1,000,000 in tax credits would be used each fiscal year. As the cap would otherwise be maintained at \$450,000 under current law, the actual impact of this proposal is a \$550,000 revenue decrease each fiscal year.

Background. The DNR receives an average of 37 new project applications for the program annually. The average project utilizes the maximum state credit of \$100,000 as the average budget exceeds \$500,000. If all projects exceeded this maximum, only 4.5 projects would be certifiable annually. However, an average of seven projects have been certified annually. As a result, projects certified for tax credits have stacked up and projects have been approved to use the tax credits through FY2006. An additional 14 approved federal applications are currently awaiting state certification. Based on past averages, the additional 14 will project the queue into FY2008 tax year.

Due to the lag time between approval and receiving the credit, a project owner may fail to claim his or her certified tax credit in the year for which it is approved. The most common reason for this would be the eventual sale of the project to a party without Indiana tax liability. (Most projects submit the state application at the commencement of the project, and it is not unusual for the project to be sold before being placed in service.) Because there is no flexibility for manipulating the queue after certifications are made, the maximum amount allowed in the cap may not actually be presented to the Department of State Revenue, effectively reducing the credits available in that fiscal year. Additionally, some taxpayers fail to follow the tax rules by claiming the credit in the year of expenditure rather than the fiscal year assigned in the queue.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Division of Historic Preservation and Archaeology, DNR.

Local Agencies Affected:

Information Sources: David Duvall, State Architect, Division of Historic Preservation and Archaeology, DNR, (317) 232-1646.